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**Soviet Spending for Defense:
Trends Since 1965 and
the Outlook for the 1980s (U)**

Key Judgments

Trends in Defense Spending and Programs

When the current Soviet regime took power in the mid-1960s it continued a policy, which probably had begun in the late 1950s or early 1960s, of increasing the commitment of resources to the military forces. Since 1965, Soviet defense expenditures in constant 1970 rubles have increased at a real average annual rate of 4 to 5 percent. Because defense spending grew at about the same rate as the economy as a whole, these expenditures absorbed a relatively constant 11 to 12 percent of the Soviet GNP. This figure reflects defense as it is defined in the United States; under a broader definition, which the Soviets may use, the defense share of GNP was about 1 percent higher.¹ (U)

The increase in Soviet expenditures on defense between 1965 and 1979 resulted from both a substantial expansion of Soviet military forces and an across-the-board improvement in the quality of weapons and equipment. Total Soviet military manpower increased by 30 percent during those years. The most significant increases in force size took place in Frontal (tactical) Aviation and Ground Forces—especially those along the Sino-Soviet border—and in strategic missile forces. All of the Soviet military services benefited from the introduction of successive generations of major weapons and support systems. (U)

Outlook for Future Defense Spending

Changing economic and political factors make it difficult to forecast Soviet defense programs and expenditures in the 1980s:

- The rate of Soviet economic growth has been slowing and has recently fallen below the rate of growth that we estimate for defense expenditures.
- Energy problems and demographic problems are likely to lead to a further economic slowdown in the 1980s, so that defense activities could begin to consume an increasing share of Soviet resources.

¹ This estimate is presented in ruble terms to reflect the cost of military programs and activities in the USSR. For an alternative measure that reflects the cost of reproducing Soviet military activities in the United States, see *A Dollar Cost Comparison of Soviet and US Defense Activities, 1968-78*. SR 79-10130, October 1979. Secret. (U)

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- A political succession is imminent, and the potential candidates for the top positions appear to hold differing views on resource allocation issues.
- Arms control negotiations now under way could affect the future composition of Soviet military forces and expenditures.

These factors take on particular importance in the light of decisions that Soviet leaders are making now on economic plans for 1981-85. (U)

Despite these complications, we have sufficient evidence to predict general trends in Soviet defense spending for the next five years or so. This includes information on:

- The Soviet leaders' views of the potential military threats from China and the West and of important deficiencies in some of their forces.
- Current Soviet weapon production programs (many of which will continue into the 1980s), weapon development activity (which is continuing at a high level), and the costs of new generations of major Soviet weapon systems (which are increasing).
- Continuing expansion in the Soviet defense industries, which will provide additional capacity for military production in the 1980s. (S)

On the basis of this information, we believe that Soviet defense spending will continue to increase in real terms at least through 1985. The available evidence indicates that, if the Soviets do not alter their current plans, defense spending probably will continue to grow over the next five years at a rate near the rate of the past 15 years. If economic pressures became particularly severe, however, the Soviets could moderate the rate of increase in defense spending by economizing in ways that would have only modest impact on modernization of their forces—by stretching out selected weapon programs, for example, or by taking advantage of the limited direct savings made possible by arms control agreements. (U)

In the longer term, growing economic difficulties may push the Soviet leaders to reexamine their plans with a view to reducing the growth of defense spending. But they will have to weigh their economic concern against their perception of future military requirements and their strong sense of the utility of military power in advancing Soviet policy objectives. Whatever choices they make with regard to defense spending, we think it is highly unlikely that, even in the longer term, economic difficulties will force a reversal of the Soviet leaders' longstanding policy of continuing to improve their military capabilities. (U)

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Key Judgments

The dominant feature of Soviet defense spending over the past 20 years has been the persistence of its growth. Since 1965, the growth has averaged about 4 percent a year—about the same as that for the overall economy. Over most of this period, the defense share of GNP was a relatively constant 12 to 13 percent. In 1979 the share increased by a percentage point. (U)

This 20-year commitment of resources to the Soviet defense effort has paid substantial dividends in political prestige and military power, but it has drawn scarce human and technical resources and raw materials from the economy. In specific sectors that are key to economic growth—machinery, fuels, power, and chemicals—the Soviet military requirement has been even higher than the one-eighth share that defense takes from the economy as a whole. (S)

Resource commitments to these key areas will be increasingly important to the economy as demographic and energy problems combine with longer standing difficulties to retard economic growth. Under these conditions, maintaining historical rates of growth in defense spending will be economically and politically more difficult. If defense spending continues to grow at about 4 percent per year and economic growth continues to decline, the defense share of GNP could increase to 15 percent in 1985 and could approach 20 percent by the end of the decade. This would drastically reduce the extent to which additional resources could be allocated to investment and consumption. It would also erode future increments to GNP that have been so important in the past in easing political tensions that arise from the competition for resources. Indeed, it appears that the preparation of the 1981-85 economic plan has involved particularly difficult decisions on the allocation of resources between defense and the other sectors of the economy. Despite such factors, we have seen no indications of a shift of resources away from the defense sector. (S)

On the basis of observed military activity—the number of weapon systems in production, weapons development programs, and trends in capital expansion in the defense industries—we expect that Soviet defense spending will continue to grow at about its historical rate through at least 1985. In this connection, however, a deputy chairman of the Soviet State Planning Committee (Gosplan) told a former US budget official last May

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SOV 81-10003X
November 1981

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that the Soviet Union has been adjusting its 1981-85 economic plan to accommodate "large increases" to the military. These increases allegedly are intended to counteract US defense budget increases and, according to this official, have required important revisions in plan targets. []

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If the Soviets are adjusting their 11th Five-Year Plan to accommodate "large increases" in defense activities, such increases would almost certainly be related to the production of military hardware. Opportunities for immediate increases could well be limited by chronic bottlenecks in the supply of components and materials. In the short run, therefore, Soviet adjustments to increase military production would likely be limited to two courses of action: modest increases in production rates for some selected systems already in or about to begin production, or the extreme measure of industrial mobilization. Longer term options include increasing investment in the defense industries to expand their capacity to produce military systems in the mid- and late 1980s and adding new development programs to those already planned. []

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Large increases in Soviet defense activities probably would be directed primarily against what the Soviets may perceive as an accelerating arms competition with the West. Since March 1981 the Soviets have apparently become less hopeful about the prospects of achieving arms control agreements with the United States and more concerned about how to preserve Moscow's military-strategic position. With this perspective, the Soviets would probably pursue a combination of near-term production increases for selected systems and longer term increases in investment and developmental activity to hedge against what in their view is an increasingly uncertain strategic environment. []

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If the Soviets pursued these options, defense spending would probably grow above historical rates in the mid- and late 1980s and beyond. In the near term, investment in some civilian sectors would suffer. Cutbacks probably would occur in such areas as consumer durables, services, housing, and machinery and equipment for the food and soft goods industries. Such cuts would worsen already poor prospects for improving labor productivity over the next five years and could increase worker discontent. Despite these consequences, we believe the Soviet leadership would be inclined to continue the current mix of cosmetic concessions, short-term fixes and patriotic appeals and, if necessary, to adopt repressive measures to ensure both continued growth of their defense effort and domestic control []

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We would detect indications of large increases in Soviet weapons development and production programs well before such weapons became operational with Soviet forces. The best indicators would be higher levels of weapons testing activity and increased capital construction at key weapons production facilities. Specific testing programs and plant expansion projects would probably provide several years' advance warning of changes in the mix and levels of weapons the Soviets intend to acquire later in this decade.

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